The May Department Stores Company Annual Report -- 1965
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1965

THE MAY DEPARTMENT STORES COMPANY

ANNUAL REPORT

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THE MAY DEPARTMENT STORES COMPANY

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DIRECTORS

Lyle M. Allen
Beatrice Fox Auerbach
Frank W. Clark, Jr.
Stephen M. DuBrul, Jr.
Stanley J. Goodman
Lincoln Gries
Samuel M. Hecht
Oliver M. Kaufmann
Roland H. Kolman
Robert H. Levi
Gustave L. Levy
David May II
Morton D. May
Morton J. May
Tom May
Wilbur D. May
Edwin C. McDonald
Jack L. Meier
Abe Eugene Rosenberg
Samuel Rosenberg
Sydney M. Shoenberg
James C. Walsh
Leo J. Wieck

HONORARY DIRECTORS

Walter J. Brunmark
Robert Lehman
Alfred L. Rose
Walter E. Sachs
Leonard Strauss

EXECUTIVE COMMITTEE

Morton D. May
Chairman
Frank W. Clark, Jr.
Stanley J. Goodman
Lincoln Gries
Roland H. Kolman
Robert H. Levi
David May II
Morton J. May
James C. Walsh

OFFICERS

Morton J. May
Chairman of the Board of Directors
Tom May
Vice Chairman of the Board of Directors
Morton D. May
President
David May II
Executive Vice President
Lincoln Gries
Executive Vice President
Beatrice Fox Auerbach
Vice President
Frank W. Clark, Jr.
Vice President
Stanley J. Goodman
Vice President
Roland H. Kolman
Vice President
Robert H. Levi
Vice President
Wilbur D. May
Vice President
Sydney M. Shoenberg
Vice President
James C. Walsh
Vice President and Treasurer
Lyle M. Allen
Secretary

APPOINTED VICE PRESIDENTS

Lester R. Adelson
John F. Baker
Andrew P. Brennan
Frank B. Chase
Francis A. Coy
Samuel J. Feiner
John L. Feudner, Jr.
George Foos
Robert E. Getz
Harry N. Hirshberg, Jr.
R. Burton Kerr
Robert L. Milius
Harry O. Schloss, Jr.
Peter Sterling
Geoffrey Swaebe
Frank I. Swenson
David Touff

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HIGHLIGHTS OF THE YEAR

	YEAR ENDED JANUARY 31	
	1966	1965
Net Retail Sales	$869,169,000	$843,500,000
Earnings Before Federal Income Taxes	82,299,000	79,797,000
Percent to Sales	9.5%	9.5%
Net Earnings	45,860,000	43,195,000
Percent to Sales	5.3%	5.1%
Per Common Share	$3.07	$2.85
Dividends Paid—Preferred Stock	242,000	1,084,000
Dividends Paid—Common Stock	20,409,000	16,120,000
Per Common Share	$1.42½	$1.15
Earnings Retained in the Business	25,209,000	25,991,000
Working Capital	222,908,000	239,065,000
Ratio of Current Assets to Current Liabilities	2.4 to 1	2.8 to 1
Accounts and Notes Receivable, net	215,987,000	200,199,000
Merchandise Inventories	142,155,000	129,642,000
Merchandise on Order	50,256,000	43,136,000
Property, Plant and Equipment, net	276,617,000	253,051,000
Long-Term Debt—Debentures and Unsecured Notes	68,578,000	74,834,000
—Real Estate Mortgages of Subsidiaries	64,545,000	68,402,000
Preferred Stock Outstanding	6,509,000	6,816,000
Number of Common Shares Outstanding	14,863,344	14,786,460
Number of Common Stockholders	28,934	29,307
Common Stockholders' Equity (Book Value)	355,223,000	330,678,000
Per Common Share	$23.90	$22.36

The results of operations for the years ended January 31, 1966 and January 31, 1965 include the results of G. Fox & Co., Incorporated, which became a division of The May Department Stores Company on November 29, 1965 and whose figures have been combined retroactively with those of the company in accordance with the pooling of interests accounting principle.

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TO OUR STOCKHOLDERS:

MORTON D. MAY
President

1965 was an eventful year for The May Department Stores Company. Our net earnings and sales reached new all-time highs. As compared with the previous records established in 1964, net earnings available for common stock were up 8.3% and net sales were up 3%. Two of the great department store names in the United States were added to our store list during 1965 when G. Fox & Co., Incorporated, of Hartford, Connecticut, joined our family of department stores and we acquired control of the Meier & Frank Company, Inc., of Portland, Oregon, under an agreement which will lead to either a merger of our two companies or our outright purchase of a majority of the common stock of Meier & Frank. The opening of seven full-line branch department stores made the 12 months ended January 31, 1966 our all-time record year for branch store expansion with a total net increase in store area of 1,166,000 square feet.

The Board of Directors has just increased the quarterly dividend rate, effective with the June 1, 1966 dividend, to 40¢ per share of common stock. This was the third dividend increase since the stock was split two-for-one in June, 1964.

General business conditions were good during 1965 and are expected to remain so during 1966 if, as we hope, inflationary pressures can be contained. For the long term, the economy is soundly based and expanding and population growth continues to be a vital element in stimulating future prosperity. Our branch store construction is planned to realize the potential of the above-average rate of population growth in the 13 major metropolitan areas coast to coast served by our department stores. Our position as the leading department store in Southern California will be further strengthened in 1966 with the addition of three more large branch department stores, one of which opened in February, to the 12 stores in the Los Angeles and San Diego areas already operated by the May Co. — Southern California. Those new branches — and three others to be opened this year, for our store operating divisions in Pittsburgh, Denver and Akron — plus two branch store additions, will add a new record 1,211,000 square feet to our total store area during 1966.

In connection with our accelerated expansion program, we have made arrangements with a large insurance company to borrow $50,000,000 in 1966 on a 5%, 25-year unsecured note and we have the right to increase this borrowing to $65,000,000.

At this point, midway through the 1960s, it is worthwhile to take stock of what we have achieved so far in the decade as a result of changes in management, merchandising and other facets of the business designed to improve profitability and maintain our position as one of the nation's leading retailers. The extent to which our operations have benefitted from these changes is illustrated by a comparison between the year ended January 31, 1961 and the year ended January 31, 1966.

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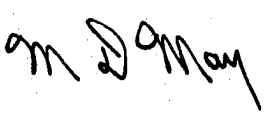
At January 31, 1961, we operated 48 department stores. They had net sales of $684,839,000 and net earnings of $22,422,000 for the 1960 fiscal year. At January 31, 1966 we operated 70 department stores. The 67 stores whose results are included in the statements of The May Department Stores Company (exclusive of the results for the three Meier & Frank stores) had net sales of $869,169,000 and net earnings of $45,860,000 for the 1965 fiscal year. Our profits for 1965 were 105% higher than for 1960 on a sales increase of 27%. Our ratio of net earnings before federal income taxes to sales rose to 9.5% in 1965 from 6.6% in 1960. Our common stock was split 2-for-1 in 1964 and since then the dividend rate has been increased three times. After adjustment for the stock split, our earnings per share were $3.07 in 1965 compared with $1.54 in 1960, an increase of 99%; the annual dividend rate which was $1.10 per common share in 1960 is now $1.60 per share, effective with the June 1, 1966 dividend.

Retail sales are continuing to grow and the economic climate is favorable. Our main emphasis in the first half of the 1960s was on programs which have improved merchandising operations and enabled us to operate at a higher level of efficiency and profitability. Now we are moving with our accelerated expansion plans to apply this higher efficiency and profitability to a much larger sales volume. We expect annual sales including Meier & Frank to pass the one-billion-dollar mark within the next two years.

We are continuing to emphasize the importance of operating every part of our business with a clearly defined objective for improvement and a program spelling out how and when the objective is to be reached. Our progress in recent years indicates the value of this policy of programmed management in enabling employees throughout the company to obtain maximum results from their efforts and initiative. We want to express our appreciation for the results achieved by our employees as well as for the assistance of our suppliers and the continued support and confidence of our stockholders and customers.

On behalf of the Board of Directors,



M. D. May
President

St. Louis, Missouri
April 25, 1966

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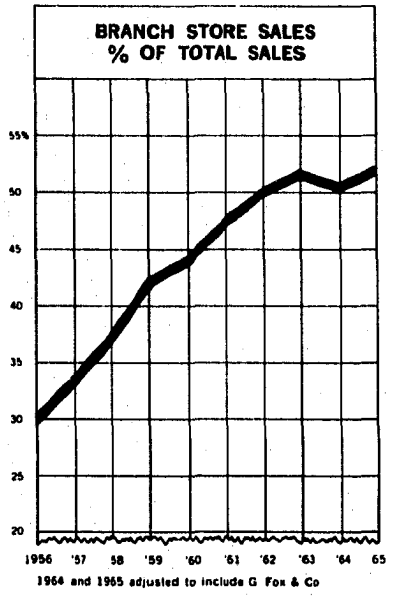
REVIEW OF THE YEAR

The results of operations for the years ended January 31, 1966 and January 31, 1965 include the results of G. Fox & Co., Incorporated, which became a division of The May Department Stores Company on November 29, 1965 and whose figures have been combined retroactively with those of the company in accordance with the pooling of interests accounting principle.

SALES

1965 was the eleventh consecutive year in which our sales volume reached a new high. Net sales amounted to $869,169,000, an increase of $25,669,000 or 3% over our 1964 sales volume of $843,500,000.

We opened seven new stores during the year ended January 31, 1966, all in the last six months. As indicated by the following comparison of our quarterly sales volume, our sales improvement accelerated in the fall period. The benefits of the substantial addition to our store area in 1965 should continue in 1966.



Sales
Year Ended January 31
(In millions of dollars)

Quarter Ended	1966	1965	% Increase
April 30	$174.6	$173.8	0.5%
July 31	194.6	193.8	0.4
October 31	211.6	205.3	3.1
January 31	288.4	270.6	6.6
	$869.2	$843.5	3.0%

Branch stores accounted for 52% of our 1965 sales volume compared with 51% in 1964 and 45% in 1960.

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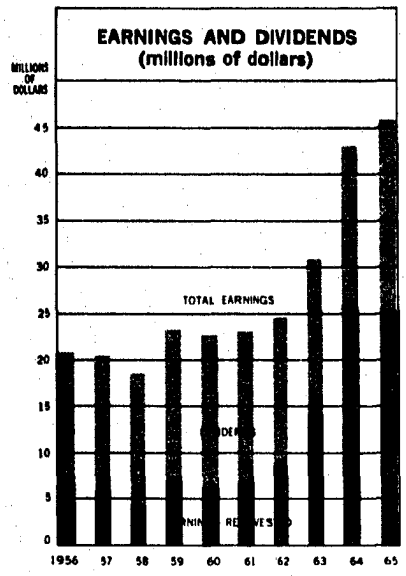
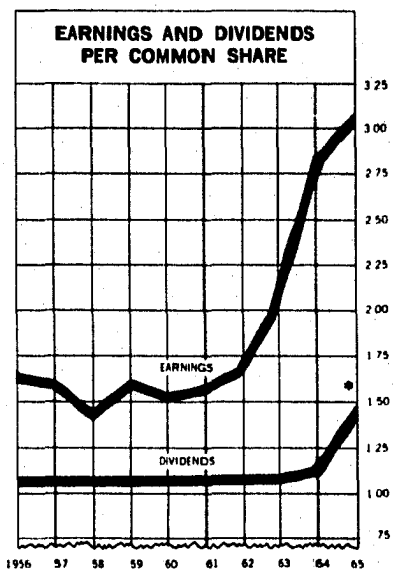


1964 and 1965 adjusted to include G Fox & Co



1964 and 1965 adjusted to include G Fox & Co

* Increased rate effective June 1 1966

EARNINGS AND DIVIDENDS

Net earnings in 1965 established a new all-time record for the company of $45,860,000, an increase of $2,665,000 over our previous record of $43,195,000 earned in 1964. Our 1965 net earnings available for common stock increased 8.3% over 1964 and amounted to $45,618,000 compared with $42,110,000 in 1964, or $3.07 per share and $2.85 per share, respectively.

Total dividends paid during the 1965 fiscal year on preferred and common stocks amounted to $20,651,000. The December 1, 1965 dividend represented the 217th consecutive quarterly cash dividend paid on the common stock over the 54 years since December 1, 1911, a record longer than that of any other department store company listed on the New York Stock Exchange.

FEDERAL INCOME TAXES

Federal income taxes for the years ended January 31, 1966 and January 31, 1965 have been provided at the applicable rates for each year, reduced by:

(a) The cumulative effect of changes in rates and other provisions of the tax law:

	Year Ended January 31	
	1966	1965
Reduction in tax applicable to deferred income on installment sales and other similar items, net.	$1,005,000	$ 626,000
Investment credit for periods prior to February 1, 1964	—	823,000
Total	$1,005,000	$1,449,000
Per common share	$.07	$.10

(b) The investment credit amounting to $1,012,000 and $831,000 (7¢ and 6¢ per common share) for 1965 and 1964, respectively.

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The adjustments listed in (a) on the previous page will not recur until such time as income tax laws are changed. The investment credit based on expenditures for equipment during each year will continue in the future under the present tax law.

WORKING CAPITAL

Working capital decreased from $239,065,000 to $222,908,000 during 1965, as funds temporarily invested at January 31, 1965 in anticipation of construction of new facilities were expended for that purpose. Expenditures in excess of such available funds were financed temporarily by short-term bank loans amounting to $22,700,000. The ratio of current assets to current liabilities at January 31, 1966 was 2.4 to 1 compared with 2.8 to 1 at the end of the previous year.

Accounts and notes receivable, less allowances for doubtful accounts and deferred carrying charges, increased from $200,199,000 to $215,987,000 during the year. Merchandise inventories amounted to $142,155,000 at January 31, 1966 compared with $129,642,000 at January 31, 1965.

PROPERTY, PLANT AND EQUIPMENT

Capital expenditures in 1965 for our increased branch store expansion program, additional service facilities and other improvements amounted to $42,800,000 compared with capital expenditures of $32,700,000 in 1964. The total for 1965 includes $2,800,000 expended to purchase a branch store formerly leased and the total for 1964 includes advances to partially-owned partnerships for shopping center construction. Our net outlay in 1964 was reduced to $25,100,000 by repayment of $7,600,000 of previous advances.

We expect capital expenditures for the current fiscal year ending January 31, 1967 to amount to approximately $45,000,000. Our total investment in property, plant and equipment at January 31, 1966 was $276,617,000 compared with $253,051,000 at January 31, 1965.

LONG-TERM DEBT

We have made arrangements with a large insurance company to borrow $50,000,000 during 1966 through the issuance of 5% unsecured notes, maturing in equal installments from March 1, 1967 to March 1, 1991. We also have the right to increase the amount to be borrowed to $65,000,000 on the same terms. Proceeds will be used in part to repay outstanding bank loans with the balance available for capital expenditures and other expansion needs.

Outstanding long-term debt was reduced by $10,113,000 during the year and at January 31, 1966 amounted to $133,123,000 compared with $143,236,000 at January 31, 1965.

PREFERRED AND COMMON STOCK

We purchased and retired 3,065 shares of preferred stock during the 1965 fiscal year, reducing the amount outstanding to $6,509,000 at January 31, 1966.

We also purchased 75,000 shares of common stock for the treasury and sold

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152,000 treasury shares to employees who exercised stock options. A total of 720,000 shares of previously unissued common stock was exchanged for the net assets of G. Fox & Co., Incorporated. After reflecting these changes, there were 14,863,000 shares of common stock outstanding at January 31, 1966.

EXPANSION INTO NEW AREAS

Two new major metropolitan areas were added in 1965 to the cities served by the May company.

G. Fox & Co., Hartford, Connecticut, became a division of the company on November 29, 1965. G. Fox & Co., the leading retailer in Connecticut, serves customers throughout the state and beyond from a 12-story, 1,127,000 square-foot store in downtown Hartford which also provides space for Brown Thomson, Inc., a smaller store operated by G. Fox. The G. Fox & Co. store has an outstanding reputation as one of the finest department stores in the country and is famous for customer service and fine merchandise. G. Fox & Co. has achieved its present position under the leadership of Beatrice Fox Auerbach, whose grandfather founded the store in 1847. Mrs. Auerbach will continue as the president of G. Fox & Co. and has been elected a director and vice president of The May Department Stores Company.

Earlier in 1965, we acquired control of Meier & Frank Company, Inc., of Portland, Oregon, through an agreement with holders of 519,000 shares of Meier & Frank common stock under which such stock has been deposited in escrow subject to May's voting control. Under this escrow agreement, the depositing stockholders have the right to require May to purchase their stock at $56 a share and May has the right to purchase their stock at $56 a share if the proposed merger of May and Meier & Frank or other tax free exchange for preference stock is not consummated by September 30, 1966. In addition, during 1965 we purchased 45,000 shares of Meier & Frank common stock for $2,429,000. The stock in escrow and our direct holdings total 61% of the outstanding Meier & Frank stock.

As previously announced, we have entered into a merger agreement with Meier & Frank, subject to the approval of the stockholders of both companies. The merger would be accomplished, under the agreement, by the exchange of each share of Meier & Frank common stock (Meier & Frank has 919,640 common shares outstanding) for one share of new preference stock of May. The new preference stock would be entitled to an annual dividend of $1.80 a share cumulatively, would be convertible into ¾ of a share of May common stock until September 30, 1968 and into ⅝ of a share from October 1, 1968 until September 30, 1975, and would be callable at the option of the company at $50 a share after September 30, 1970. The merger has not yet been finalized because of the stated opposition of another department store company which in 1965 acquired slightly more than one-third of the outstanding Meier & Frank stock.

Meier & Frank is the leading retailer in Oregon and operates two department stores in Portland and one in Salem, Oregon. Operating results of Meier & Frank are not included in the reported results of The May Department Stores Company for the

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year ended January 31, 1966. A summary of their operations as reported to shareholders is as follows:

	Year Ended January 31	
	1966	1965
Current assets	$31,644,000	$41,707,000
Investments and property	13,423,000	13,920,000
Total assets	$45,067,000	$55,627,000
Current liabilities	$ 9,566,000	$ 9,605,000
Long-term debt	1,910,000	13,918,000
Deferred taxes	148,000	355,000
Stockholders' equity	33,443,000	31,749,000
Total liabilities and stockholders' equity	$45,067,000	$55,627,000
Sales	$73,313,000	$71,077,000
Income before special charges	$ 2,945,000	$ 2,220,000
Special charges	423,000	—
Net income	$ 2,522,000	$ 2,220,000

EXPANSION IN EXISTING AREAS

Seven new branches were opened during the year ended January 31, 1966 (one of which replaced a smaller store), bringing to 70 the number of stores we operate in 13 large metropolitan areas. New stores opened last year were as follows:

MONTH	AREA	STORE	NUMBER OF SQUARE FEET
August	Southern California	Whittier	248,000
August	Pittsburgh	Mt. Lebanon	170,000
August	Washington	Landmark	162,000
August	Akron	Stow-Kent	86,000
September	Cleveland	Great Northern	187,000
October	Akron	Summit Mall	131,000
		(Fairlawn closed)	(30,000)
January 1966	St. Louis	Northwest	212,000
		Total	1,166,000

Six more full-line branch department stores and two branch store additions are scheduled to open in the fiscal year ending January 31, 1967. Two of these stores are already in operation, the South Coast Plaza store having opened in February, 1966 and the McKnight Road store in April, 1966:

MONTH	AREA	STORE	NUMBER OF SQUARE FEET
February	Southern California	South Coast Plaza	250,000
April	Pittsburgh	McKnight Road	185,000
May	Youngstown	Boardman Plaza (Addition)	35,000
August	Denver	Bear Valley	138,000
August	Southern California	Arcadia	248,000
September	Southern California	San Bernardino	205,000
October	Akron	Chapel Hill	130,000
October	Cleveland	Southgate (Addition)	20,000
		Total	1,211,000

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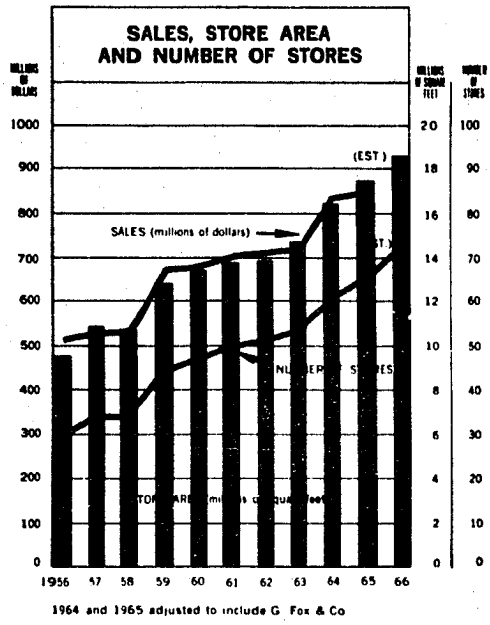
We opened a new 500-car garage adjoining our Baltimore downtown store in November, 1965, and construction has begun on a 600-car garage adjacent to our downtown Youngstown store. We also expect to complete during 1966 a total of approximately 450,000 square feet of new warehouse and service building area in Akron, St. Louis and Denver.



1964 and 1965 adjusted to include G. Fox & Co.

MANAGEMENT

Three additional members were elected to the Board of Directors at the 1965 Annual Meeting of Stockholders:

Edwin C. McDonald – Chairman of the Board, The Royal Bank of Canada Trust Company

Jack L. Meier – President, Meier & Frank Company, Inc.

Abe Eugene Rosenberg – General Counsel, Meier & Frank Company, Inc.

George Foos has been appointed a vice president of the company. Formerly vice president and general merchandise manager of our Kaufmann's stores in Pittsburgh, Mr. Foos is now executive vice president of the May Co. – Southern California, in charge of merchandising and sales promotion, succeeding Samuel J. Sugerman, who has retired under the provisions of the company's retirement plan.

ANNUAL MEETING – *All stockholders are cordially invited to attend the 1966 Annual Meeting of Common Stockholders of The May Department Stores Company, which will be held on the 47th floor of the premises of the Irving Trust Co. at One Wall Street, New York, N. Y., at 10 a.m. on June 8, 1966. The management will send a proxy statement to the stockholders requesting the proxies of those who are unable to attend the meeting in person.*

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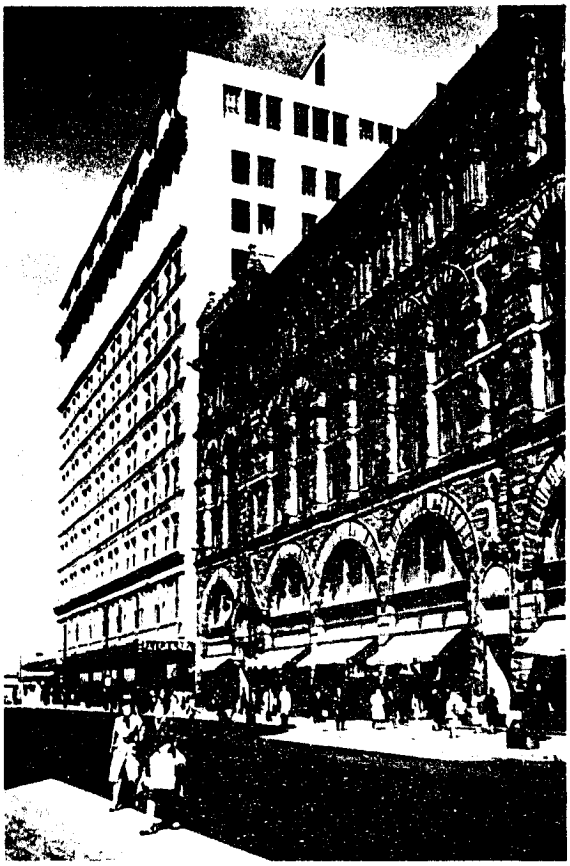
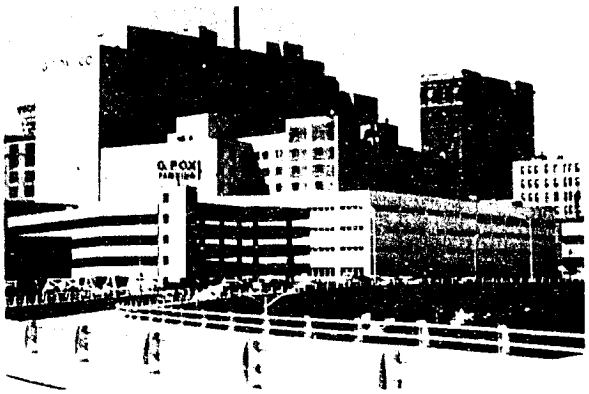


G. Fox & Co. — fine merchandise and quality.



Two views of the G. Fox & Co. store in downtown Hartford which has adjoining parking garages for 1,100 cars.

Beatrice Fox Auerbach, president of G. Fox & Co.

NEW REGIONS

Our list of main store areas became more diversified geographically in 1965 when we gained representation in New England with G. Fox & Co. of Hartford, Connecticut, and in the Pacific Northwest with Meier & Frank Company, Inc., of Portland, Oregon.

NEW DIRECTORS

Four directors were added to our Board in 1965.

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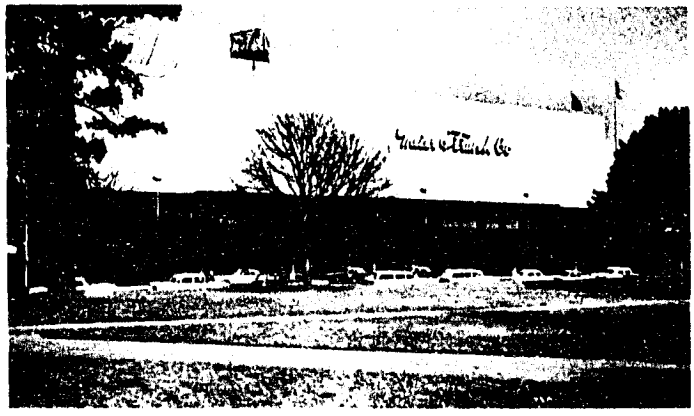
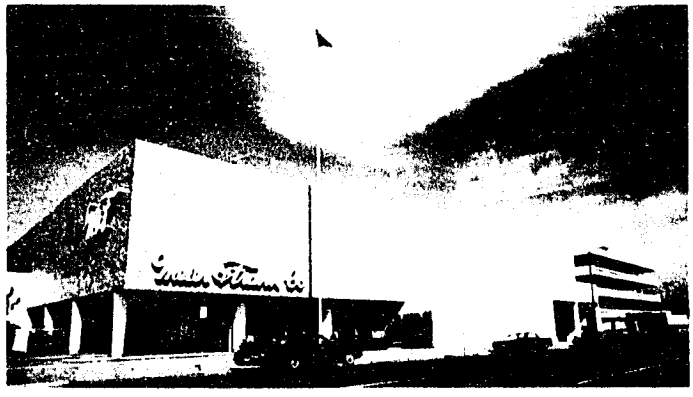
Meier & Frank main store in the center of the Portland business district.



Meier & Frank store in Lloyd Center, Portland



Meier & Frank store in Salem, Oregon.

NEW DIRECTORS

Edwin C. McDonald, chairman of the board of The Royal Bank of Canada Trust Company.

Abe Eugene Rosenberg (left), general counsel of Meier & Frank, and Jack L Meier, president

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NET EARNINGS

	YEAR ENDED JANUARY 31	
	1966	1965
NET RETAIL SALES (including leased departments)	$869,168,665	$843,499,773
RENTAL INCOME	4,547,617	4,402,374
	$873,716,282	$847,902,147
COSTS AND EXPENSES		
Cost of sales and other expenses (less credit service charges and other income, exclusive of items listed below)	$734,039,038	$713,224,642
Maintenance and repairs	5,378,059	5,663,576
Depreciation and amortization	16,999,632	16,041,887
Taxes other than federal income taxes	22,541,464	21,525,707
Rentals	5,512,347	5,172,647
Interest and debt expense (less interest income and discount on debt prepayment: 1966 — $1,516,569; 1965 — $1,044,344)	5,418,430	4,806,514
Retirement plan contributions	1,528,693	1,670,131
	$791,417,663	$768,105,104
EARNINGS BEFORE FEDERAL INCOME TAXES	$ 82,298,619	$ 79,797,043
Federal income taxes (including provision for deferred taxes: 1966 – $4,625,738; 1965 – $5,824,744)	36,438,832	36,602,388
NET EARNINGS	$ 45,859,787	$ 43,194,655

ACCUMULATED EARNINGS RETAINED IN THE BUSINESS

	YEAR ENDED JANUARY 31	
	1966	1965
BALANCE AT BEGINNING OF YEAR	$251,354,122	$225,363,515
NET EARNINGS FOR THE YEAR	45,859,787	43,194,655
	$297,213,909	$268,558,170
CASH DIVIDENDS PAID		
Preferred Stock	$ 242,127	$ 1,084,217
Common Stock: 1966 — $1.42½ per share; 1965 — $1.15 per share	20,408,549	16,119,831
	$ 20,650,676	$ 17,204,048
BALANCE AT END OF YEAR	$276,563,233	$251,354,122

See notes to financial statements.

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THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES

SOURCE AND APPLICATION OF FUNDS

	YEAR ENDED JANUARY 31	
	1966	1965
SOURCE OF FUNDS		
Net earnings	$ 45,859,787	$ 43,194,655
Depreciation and amortization	16,999,632	16,041,887
Increase in long-term debt	—	18,968,502
Increase in deferred liabilities, primarily federal income taxes	3,001,244	4,662,710
Decrease in net current assets	16,157,698	—
Common stock sold	3,742,547	5,337,140
Decrease in investments and other assets	—	4,177,570
	$ 85,760,908	$ 92,382,464
APPLICATION OF FUNDS		
Dividends paid	$ 20,650,676	$ 17,204,048
Increase in property, plant and equipment	40,565,418	31,799,956
Increase in net current assets	—	16,910,357
Decrease in long-term debt	10,112,398	—
Preferred stock purchased	280,422	20,818,092
Common stock purchased	4,435,261	5,650,011
Increase in investments and other assets	9,716,733	—
	$ 85,760,908	$ 92,382,464

ADDITIONAL PAID-IN CAPITAL

	YEAR ENDED JANUARY 31	
	1966	1965
BALANCE AT BEGINNING OF YEAR	$ 42,548,438	$ 40,478,586
Excess of net proceeds received over par value of treasury common stock sold to employees under stock option plan	3,361,917	4,770,540
Excess of cost over par value of common stock acquired for treasury (deduct)	(4,246,841)	(5,359,896)
Excess of par or carrying value ($100 a share) over cost of preferred stock repurchased	26,078	2,659,208
BALANCE AT END OF YEAR	$ 41,689,592	$ 42,548,438

See notes to financial statements.

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BALANCE SHEET

ASSETS

	JANUARY 31 1966	JANUARY 31 1965
CURRENT ASSETS		
Cash	$ 10,575,404	$ 11,677,946
United States Government and other marketable securities — at cost	4,399,187	25,514,695
Accounts and notes receivable	215,986,795	200,198,501
Merchandise inventories	142,155,345	129,642,468
Supplies and prepaid expenses	6,836,750	6,799,075
TOTAL CURRENT ASSETS	$379,953,481	$373,832,685
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to affiliated partnerships — at equity in net assets	$ 2,495,300	$ 1,383,434
Notes receivable and miscellaneous	13,694,031	4,906,549
	$ 16,189,331	$ 6,289,983
PROPERTY, PLANT AND EQUIPMENT	$276,616,980	$253,051,194
DEFERRED CHARGES — debt expense and miscellaneous	$ 1,096,722	$ 1,279,337
GOODWILL	$ 1	$ 1
	$673,856,515	$634,453,200

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THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES

LIABILITIES

	JANUARY 31	
	1966	1965
CURRENT LIABILITIES		
Notes payable	$ 22,700,000	$ 425,000
Accounts payable and accrued expenses	76,070,950	79,419,053
Federal income taxes — current	30,112,903	28,595,917
— deferred	23,425,360	21,536,970
Long-term debt due within one year	4,736,630	4,790,409
TOTAL CURRENT LIABILITIES	$157,045,843	$134,767,349
LONG-TERM DEBT		
2⅝% — 3¼% Sinking fund debentures, due 1972 — 1980	$ 37,509,000	$ 40,936,000
3% — 5% Unsecured notes, due 1968 — 1989	31,069,000	33,898,000
3½% — 5¼% Mortgage notes and bonds of subsidiaries, due 1977 — 1990	64,545,219	68,401,617
	$133,123,219	$143,235,617
DEFERRED FEDERAL INCOME TAXES	$ 20,005,884	$ 17,268,402
DEFERRED COMPENSATION	$ 1,761,184	$ 1,497,422
STOCKHOLDERS' INVESTMENT		
Preferred stock	$ 6,509,200	$ 6,815,700
Common stock	37,158,360	36,966,150
Additional paid-in capital	41,689,592	42,548,438
Accumulated earnings retained in the business	276,563,233	251,354,122
	$361,920,385	$337,684,410
	$673,856,515	$634,453,200

See notes to financial statements.

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THE MAY
DEPARTMENT STORES
COMPANY

ACCOUNTS AND NOTES RECEIVABLE

	January 31 1966	January 31 1965
Due from customers		
30 day charge acccunts	$ 39,069,337	$ 47,289,322
Deferred payment accounts	174,371,658	151,990,043
Other accounts and notes receivable	11,318,155	9,157,883
	$224,759,150	$208,437,248
Less allowance for		
Doubtful accounts	$ 8,022,797	$ 7,446,214
Deferred carrying charges	749,558	792,533
	$ 8,772,355	$ 8,238,747
	$215,986,795	$200,198,501

PROPERTY, PLANT AND EQUIPMENT

	January 31, 1966			January 31, 1965		
	Cost	Accumulated Depreciation and Amortization	Net	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 33,878,525	$ –	$ 33,878,525	$ 33,149,758	$ –	$ 33,149,758
Buildings and building equipment substantially all on owned land	214,488,278	63,737,477	150,750,801	196,186,124	59,995,103	136,191,021
Buildings and building equipment substantially all on leased land	75,971,954	34,570,656	41,401,298	62,288,715	25,245,495	37,043,220
Furniture, fixtures and equipment	92,948,769	42,362,413	50,586,356	87,057,852	40,390,657	46,667,195
	$417,287,526	$140,670,546	$276,616,980	$378,682,449	$125,631,255	$253,051,194
Depreciated cost of properties pledged under long-term debt			$ 60,242,089			$ 63,971,610

PREFERRED STOCK

	Redemption Price	Sinking Fund Requirements		Shares Outstanding January 31	
		Commencement	Number of Shares, Annually	1966	1965
Preferred Stock					
$3.75 Cumulative Preferred Stock (1945)	$103.50	July 1, 2031	1,500	24,831	24,993
$3.40 Cumulative Preferred Stock	103.50	July 1, 2042	1,106	10,724	10,727
$3.75 Cumulative Preferred Stock, 1947 Series	100.00	January 31, 2027	895	19,619	22,519
3¾% Cumulative Preferred Stock (1959)	103.00	December 31, 1988	1,120	9,918	9,918
				65,092	68,157
Amount				$6,509,200	$6,815,700

Each of the preferred stock issues is of no par value (carrying value $100 a share) except the 3¾% Cumulative Preferred Stock which has a par value of $100 a share. In the event of involuntary liquidation the holders of the preferred stock are entitled to $100 a share.

The Company has purchased and retired shares of preferred stock sufficient to meet annual sinking fund requirements until the dates shown above.

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NOTE A — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include all subsidiaries, each of which is wholly owned.

The acquisition of the net assets of G. Fox & Co., Incorporated on November 29, 1965 in exchange for 720,000 shares of common stock of the Company has been accounted for as a pooling of interests. Accordingly, the net assets and operations of G. Fox & Co., Incorporated prior to November 29, 1965 have been included in the foregoing financial statements.

NOTE B — INVENTORIES

Merchandise inventories are determined by use of the retail inventory method and are stated on the LIFO (last-in, first-out) basis, which is lower than market, except that the merchandise inventories of G. Fox & Co., Incorporated included herein prior to acquisition have been determined on a FIFO (first-in, first-out) basis.

The effect of the inclusion of the inventories of G. Fox on the above basis upon the combined results of operations for periods prior to acquisition is not deemed significant.

Inventories at January 31, 1966 and January 31, 1965 are stated at $2,543,000 and $3,052,000, respectively, less than they would have been if the first-in, first-out principle had been applied in determining cost.

NOTE C — LONG-TERM DEBT

The annual maturities for the next five years, including sinking fund requirements against which debentures aggregating $9,991,000 that have been cancelled may be applied, are as follows:

1966	$7,237,000	1969	$6,945,000
1967	$7,533,000	1970	$7,510,000
1968	$8,933,000		

Under the terms of the long-term debt: (1) accumulated earnings retained in the business of approximately $94,096,000 at January 31, 1966 are not subject to any dividend restrictions and (2) additional long-term borrowing by the Company and certain of its subsidiaries is limited to approximately $64,077,000 at January 31, 1966

NOTE D — COSTS AND EXPENSES

Costs and expenses shown in the statement of net earnings include cost of merchandise sold and expenses as follows:

	Year Ended January 31	
	1966	1965
Cost of merchandise sold (including merchandise alteration, occupancy and buying costs)	$639,015,292	$620,596,846
Selling, publicity, delivery, general and administrative expenses (less credit service charges and other income)	146,983,941	142,701,744
Interest and debt expense, net	5,418,430	4,806,514
	$791,417,663	$768,105,104

NOTE E — FEDERAL INCOME TAXES

Deferred federal income taxes result from the use, for tax purposes, of guideline depreciation lives and accelerated depreciation methods and the installment method of accounting for deferred payment sales.

The provision for federal income taxes for the year ended January 31, 1966 has been reduced by $1,005,000 representing the cumulative effect of changes in federal income tax rates.

NOTE F — COMMON STOCK

There are 20,000,000 authorized shares of $2.50 par value common stock. Issued and outstanding common stock consisted of:

	Shares, January 31		Amount, January 31	
	1966	1965	1966	1965
Issued	15,112,760	15,112,760	$37,781,900	$37,781,900
In treasury	249,416	326,300	623,540	815,750
Outstanding	14,863,344	14,786,460	$37,158,360	$36,966,150

The above tabulation reflects in each year the 720,000 shares of common stock issued in connection with the acquisition of G. Fox & Co., Incorporated.

Under the Company's stock option plans, 1,600,000 shares of common stock were originally available to be optioned and sold to management employees of the Company and its subsidiaries 391,762 shares were available for option at January 31, 1966 and options for 283,316 shares were outstanding, of which options for 118,007 shares were exercisable From January 8, 1954 to January 31,1966, options for 1,208,238 shares had been granted at prices ranging from $14.3125 to $60 375 a share (representing the market prices at the respective dates of grant). During the year ended January 31, 1966, options for 152,252 shares were exercised at an aggregate price of $3,749,684.

NOTE G — LONG-TERM LEASES

In addition to fixed annual rentals, the Company's long-term leases generally provide that the Company will pay real estate taxes and other expenses and in certain cases additional rentals based on sales. There were 110 leases in effect at January 31, 1966 providing for minimum fixed annual rentals of $5,483,000, which leases expire in the periods indicated:

1966 to 1975	$ 322,000
1976 to 1985	962,000
1986 to 1995	3,030,000
1996 and subsequent	1,169,000
	$5,483,000

NOTE H — PROPOSED MERGER

Reference is made to Page 7 for information with respect to the proposed merger with Meier & Frank Company, Inc. and the possible stock purchase commitment should such merger not be consummated by September 30, 1966.

BOARD OF DIRECTORS AND STOCKHOLDERS,
The May Department Stores Company,
St. Louis, Missouri.

March 31, 1966

We have examined the accompanying consolidated balance sheet of The May Department Stores Company and subsidiaries as of January 31, 1966, and the related statements of net earnings, of accumulated earnings retained in the business, of additional paid-in capital and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The May Department Stores Company and subsidiaries at January 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the consolidated statement of source and application of funds presents fairly the information therein set forth.

St. Louis, Missouri

TOUCHE, ROSS, BAILEY & SMART
Certified Public Accountants

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TEN YEAR PERFORMANCE RECORD

YEAR ENDED JANUARY 31	1966	1965	1964	1963
OPERATING STATISTICS				
Net Retail Sales	$869,169,000	$843,500,000	$723,714,000	$709,652,000
Earnings Before Federal Income Taxes	82,299,000	79,797,000	61,089,000	51,362,000
Percent to Sales	9.5%	9.5%	8.4%	7.2%
Net Earnings	45,860,000	43,195,000	30,433,000	24,795,000
Percent to Sales	5.3%	5.1%	4.2%	3.5%
Dividends Paid —				
Preferred Stock	242,000	1,084,000	1,149,000	1,176,000
Common Stock	20,409,000	16,120,000	15,333,000	15,291,000
Earnings Retained in the Business	25,209,000	25,991,000	13,951,000	8,328,000
Per Common Share —				
Net Earnings	$3.07	$2.85	$2.10	$1.70
Dividends	1.42½	1.15	1.10	1.10
Federal Income Taxes	2.45	2.48	2.20	1.91
Depreciation and Amortization	17,000,000	16,042,000	14,485,000	14,937,000
Maintenance and Repairs	5,378,000	5,664,000	4,791,000	4,893,000
Taxes, Other than Federal Income	22,541,000	21,526,000	18,703,000	18,322,000
Rental Expense	5,512,000	5,173,000	5,172,000	4,738,000
Interest and Debt Expense, net	5,418,000	4,807,000	4,035,000	4,777,000
FINANCIAL STATISTICS				
Working Capital	222,908,000	239,065,000	207,369,000	214,487,000
Ratio of Current Assets to Current Liabilities	2.4 to 1	2.8 to 1	2.9 to 1	3.2 to 1
Accounts and Notes Receivable, net	215,987,000	200,199,000	173,446,000	164,447,000
Merchandise Inventories	142,155,000	129,642,000	109,921,000	101,386,000
Property, Plant and Equipment, net	276,617,000	253,051,000	216,559,000	203,251,000
Total Assets	673,857,000	634,453,000	543,297,000	525,554,000
Long-Term Debt —				
Debentures and Unsecured Notes	68,578,000	74,834,000	46,904,000	52,021,000
Real Estate Mortgages of Subsidiaries	64,545,000	68,402,000	70,863,000	73,270,000
Preferred Stock	6,509,000	6,816,000	30,293,000	31,956,000
Common Stock Equity (book value)	355,223,000	330,678,000	273,099,000	258,833,000
Per Common Share	$23.90	$22.36	$19.57	$18.61

Note: The years ended January 31, 1964 and prior have not been adjusted to include G. Fox & Co.

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THE MAY DEPARTMENT STORES COMPANY

1962	1961	1960	1959	1958	1957
$708,481,000	$684,839,000	$683,964,000	$540,982,000	$533,657,000	$521,444,000
46,538,000	45,463,000	47,389,000	37,690,000	41,884,000	42,300,000
6.6%	6.6%	6.9%	7.0%	7.8%	8.1%
23,076,000	22,422,000	23,181,000	18,539,000	20,241,000	20,670,000
3.3%	3.3%	3.4%	3.4%	3.8%	4.0%
1,198,000	1,224,000	1,247,000	1,108,000	1,122,000	1,140,000
15,189,000	15,128,000	15,083,000	13,179,000	13,155,000	13,045,000
6,689,000	6,070,000	6,851,000	4,252,000	5,964,000	6,485,000
$1.58	$1.54	$1.60	$1.45	$1.60	$1.64
1.10	1.10	1.10	1.10	1.10	1.10
1.69	1.67	1.76	1.59	1.81	1.82
14,977,000	13,563,000	12,971,000	9,381,000	8,430,000	8,103,000
5,345,000	5,921,000	6,118,000	3,923,000	3,857,000	3,315,000
16,114,000	15,294,000	14,384,000	10,403,000	9,240,000	8,470,000
5,138,000	5,043,000	5,129,000	2,814,000	3,083,000	2,779,000
4,762,000	4,123,000	3,929,000	2,639,000	2,652,000	2,274,000
195,939,000	193,699,000	239,573,000	136,627,000	137,610,000	125,987,000
3.0 to 1	3.1 to 1	3.6 to 1	2.9 to 1	2.9 to 1	2.8 to 1
158,621,000	150,565,000	134,119,000	101,660,000	97,314,000	92,129,000
101,755,000	96,383,000	94,716,000	77,437,000	77,456,000	72,076,000
207,640,000	206,576,000	184,686,000	154,898,000	139,145,000	121,611,000
515,929,000	504,892,000	523,802,000	372,726,000	368,378,000	331,532,000
53,521,000	57,490,000	80,400,000	58,152,000	60,720,000	61,257,000
75,650,000	78,009,000	80,333,000	27,943,000	25,000,000	–
32,581,000	32,918,000	33,904,000	30,464,000	30,475,000	31,058,000
249,959,000	241,201,000	234,326,000	182,785,000	177,614,000	169,812,000
$18.02	$17.51	$17.05	$15.20	$14.83	$14.30

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O'NEIL'S

AKRON

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Vice Presidents . . . . . William C. Detwiler
Gerald M. Hornbein
Vice President,
Secretary and Treasurer . . . . . Joseph H. Johnson

BRANCHES:

Alliance	Elyria-Lorain
Barberton	Mansfield
Canton Downtown	Massillon
Canton Plaza	Stow-Kent
Coshocton	Summit Mall
Cuyahoga Falls	*Chapel Hill

THE HECHT CO.

Chairman and President . . . . . Robert H. Levi

BALTIMORE

Executive Vice President and
General Manager . . . . . John F. Baker
Vice Presidents . . . . . Harold A. Crone
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BRANCHES:

Annapolis	Northwood
Easton	Reisterstown Road Plaza
Edmondson	

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Executive Vice President and
General Manager . . . . . Harry N. Hirshberg, Jr.
Vice President . . . . . Harold K. Melnicove
Vice President and Secretary . . . . . Walter E. Reitz, Jr.

BRANCHES:

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Laurel	Prince Georges Plaza
Marlow Heights	Silver Spring

THE MAY CO.

CLEVELAND

President . . . . . Francis A. Coy
Executive Vice President . . . . . Warner B. Rhoads
Vice Presidents . . . . . Alex Perkowski
Walter Powers
Vice President,
Secretary and Treasurer . . . . . Edwin I. Geller

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Great Northern
Parmatown
Southgate
University Heights

MAY-D & F

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Vice Presidents . . . . . Richard Maginot
Jerome M. Nemiro
Lee Orcutt
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University Hills
Westland
*Bear Valley

G. FOX & CO.

HARTFORD

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Vice President . . . . . Richard Koopman
Vice President and Secretary . . . . . Bernard Schiro
Assistant Secretary and
Assistant Treasurer . . . . . Solomon Katzen
Assistant Secretary and
Assistant Treasurer . . . . . Russell Neisloss

BROWN THOMSON, INC.

MAY COHENS

JACKSONVILLE

President . . . . . Robert L. Milius
Vice President,
Secretary and Treasurer . . . . . William L. Hatcher

BRANCH:

*Regency Square

KAUFMANN'S

PITTSBURGH

President . . . . . Frank B. Chase
Vice Presidents . . . . . David C. Farrell
Joseph E. Moore
Roy M. Oliver
Thomas F. Rafferty
Vice President and Treasurer . . . . . Stanley W. Landon
Secretary . . . . . Harry J. Boyd

BRANCHES:

McKnight Road (Opened April, 1966)
Monroeville
Mt. Lebanon

*Under Construction

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THE MAY DEPARTMENT STORES COMPANY

MEIER & FRANK COMPANY, INC. (See Page 7)

PORTLAND

President . . . . . Jack L. Meier
Executive Vice President . . . . . William C. Miller
Vice President and Secretary . . . . . Leslie Sherman
Treasurer and Assistant Secretary . . . . . Lloyd F. Eckhardt

BRANCHES:
Lloyd's
Salem

FAMOUS-BARR CO.

ST. LOUIS

President . . . . . Stanley J. Goodman
Vice Presidents . . . . . Harry W. Loeb
Harry A. Kleyman
Melvin S. Strassner
Joan Van de Erve
Richard D. Wagner
Sanford J. Zimmerman
Vice President, Secretary and Treasurer . . . . . William H. Fischer

BRANCHES:
Clayton
Northland
Northwest
South County
Southtown

MAY CO. — SOUTHERN CALIFORNIA

LOS ANGELES • SAN DIEGO

Chairman . . . . . Tom May
President . . . . . Geoffrey Swaebe
Executive Vice Presidents . . . . . George Foos
Frank I. Swenson
Vice Presidents . . . . . Ralph E. Doughton
Benjamin Leichner
Cortland Peterson
Leo E. Pollakoff
Vice President, Secretary and Treasurer . . . . . Samuel J. Shaffer

BRANCHES:
Buena Park
Crenshaw
Eastland
Lakewood
San Fernando Valley
South Bay
South Coast Plaza (Opened February, 1966)
Topanga Plaza
West Los Angeles
Whittier
Wilshire
*Arcadia
*San Bernardino

STROUSS-HIRSHBERG

YOUNGSTOWN

President . . . . . R. Burton Kerr
Vice Presidents . . . . . Paul McDowell
Samuel Rosenthal
Vice President, Secretary and Treasurer . . . . . Frank K. Wodarsky

BRANCHES:
Boardman Plaza
Liberty Plaza
New Castle, Pa.
Salem, Ohio
Warren, Ohio
Griswold Co., Warren, Ohio
The Sharon Store, Sharon, Pa.

NEW YORK BUYING OFFICE

Vice President and General Manager . . Samuel J. Feiner

DESIGN AND CONSTRUCTION DIVISION

Vice President and General Manager . . . . Peter Sterling

TRADING STAMP DIVISION

Chairman . . . . . Andrew P. Brennan
President and General Manager — St. Louis Area . . . . . Eli M. Strassner
Vice President and General Manager — Cleveland Area . . . . . Robert W. Falke

SHOPPING CENTER DIVISION

Vice President and General Manager . . . Robert E. Getz

AKRON	*O'Neil-Sheffield*	*Lorain County, Ohio*
DENVER	*Westland*	*Lakewood, Colorado*
ST. LOUIS	*Northland*	*St. Louis County, Missouri*
	South County	*St. Louis County, Missouri*
SOUTHERN CALIFORNIA	*Eastland*	*West Covina, California*
	Mission Valley	*San Diego, California*
	Topanga Plaza	*Los Angeles, California*
WASHINGTON, D. C.	*Parkington*	*Arlington, Virginia*

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